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FISCAL IMPACT STATEMENT

LS 6268

BILL NUMBER: HB 1023

NOTE PREPARED: Nov 30, 2009

BILL AMENDED:

SUBJECT: Lawrence County Airport Development Zone.

FIRST AUTHOR: Rep. Koch

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that the Virgil I. Grissom Municipal Airport may be designated an Airport Development Zone by the Lawrence County Board of Aviation Commissioners.

Effective Date: July 1, 2010.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will have to revise tax forms, instructions, and computer programs to reflect the addition of the Virgil I. Grissom Municipal Airport as an Airport Development Zone. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - This bill provides that the Virgil I. Grissom Municipal Airport may be designated as an Airport Development Zone by the Lawrence County Board of Aviation Commissioners, effective July 1, 2010. If so designated, several tax incentives would be available for the airport area that are available to Enterprise Zones, including the Employment Tax Deduction, the Employment Expense Credit, the Loan Interest Credit, the Neighborhood Assistance Credit, and the Investment Cost Credit. These incentives may be taken against Adjusted Gross Income (AGI), Financial Institutions, or the Insurance Premiums Tax liabilities, which would serve to reduce revenue to the General Fund by an indeterminable amount.

Background Information - *Employee Tax Deduction:* This tax deduction is for qualified employees of an Enterprise Zone business. The qualified employee is an individual who is employed by a taxpayer where the employee's principal place of residence is in the Enterprise Zone where the employee is employed. Qualified

employees include employees of a financial institution, insurance company, and an international banking facility. Also included are employees of a nonprofit entity, the state, a political subdivision, or the United States Government. The qualified employee is entitled to a deduction from their AGI equal to the lesser of; (1) half of the AGI for the taxable year earned as a qualified employee; or (2) \$7,500.

In tax year 2007, 38 individuals claimed about \$240,000 in deductions for qualified Airport Development Zones.

Employment Expense Credit: This credit is for employers that hire qualified employees that live and work half of the time in the Enterprise Zone. The credit is equal to the lesser of 10% multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year; or \$1,500 multiplied by the number of qualified employees employed by the taxpayer during the taxable year. The tax credit can be carried forward for 10 years or carried back for 3 years.

For tax year 2007, 5 individuals claimed about \$8,400 in credits for qualified Airport Development Zones, and 40 corporate taxpayers claimed about \$872,000 in Employment Expense Credits for qualified Enterprise Zones.

Loan Interest Credit: The Loan Interest Credit is a nonrefundable tax credit that a taxpayer may claim against the AGI Tax, the Financial Institutions Tax, or the Insurance Premiums Tax. It is equal to 5% of the interest a taxpayer receives during the taxable year on qualified loans to businesses or individuals for specified uses in an Enterprise Zone. The credit can be carried forward for 10 years.

In tax year 2007, three individual taxpayers claimed about \$1,200 in Loan Interest Credits for qualified Airport Development Zones. Twenty corporate taxpayers claimed about \$2.5 M in credits for qualified Enterprise Zones for tax year 2007.

Neighborhood Assistance Credit: The Neighborhood Assistance Credit is for Indiana taxpayers who contribute to individuals, groups, or neighborhood organizations or who engage in activities to upgrade economically disadvantaged areas for economically disadvantaged households. This credit is limited to the lesser of 50% of the amount contributed or invested, state income tax due, or \$25,000 in any taxable year. The credit can be applied against the taxpayer's AGI tax or Financial Institutions Tax liabilities. The tax credit may not be refunded, carried back, or carried forward. The total amount of Neighborhood Assistance Credit allowed to all taxpayers in any state fiscal year is limited to \$2.5 M.

In tax year 2007, 3,488 individual taxpayers claimed about \$2.2 M in credits. For tax year 2007, 6 corporate taxpayers claimed about \$9,650 in Neighborhood Assistance Credits.

Investment Cost Credit: Under current statute, the Investment Cost Credit may be claimed against the AGI Tax by taxpayers purchasing an ownership interest (an equity investment) in an Enterprise Zone business. The Investment Cost Credit is equal to a maximum of 30% of the equity investment. The credit percentage allowed (up to 30%) varies depending upon the type of investment, the type of business, and the number of jobs created. The credit is nonrefundable, but a taxpayer may carry over excess credits to subsequent taxable years.

Individual taxpayers did not claim Investment Cost Credits in tax years 2005 through 2007. Data for corporate taxpayers was not available.

Revenue from the AGI Tax on individuals and corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund.

Airport Development Zones: IC 8-22-3.5-1 authorizes the following areas to establish Airport Development Zones:

- (1) Marion County;
- (2) City of Gary, IN;
- (3) Vigo County;
- (4) Allen County;
- (5) Vanderburgh County;
- (6) Delaware County; and
- (7) City of Anderson, IN.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Virgil I. Grissom Municipal Airport Development Zone:* If the Virgil I. Grissom Municipal Airport is designated as an Airport Development Zone, businesses located in the zone will have to pay a fee equal to the amount required for enterprise zone businesses, which is currently 1% of the tax incentives claimed. This fee would be deposited in the debt service fund established for the Airport Development Zone.

Lawrence County: Because the Employee Tax Deduction would decrease taxable income, Lawrence County may experience a decrease in revenue from the County Adjusted Gross Income Tax (CAGIT), Local Option Income Tax (LOIT) for property tax relief, and the LOIT for public safety.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Virgil I. Grissom Municipal Airport Development Zone; Lawrence County.

Information Sources: OFMA Income tax databases.

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